



**Central Bucks School District**  
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**CENTRAL BUCKS SCHOOL DISTRICT**

# Budget for the 2012-2013 School Year

Financial Information for the General Fund.

## Executive Summary



# Central Bucks School District

## Doylestown, Pennsylvania

### Annual Budget Fiscal Year 2011-2012

#### Board of School Directors

Name	Term Expires	Position
Paul B. Faulkner	(2013)	President, Meet and Discuss, Finance Chair, Committees
Geryl D. McMullin	(2015)	Vice President, Curriculum Chair, HR, Meet & Discuss, Legislative
Stephen A. Corr	(2013)	Operations Chair, Finance, HR Chair, Legislative Committees
Jim Duffy	(2015)	Finance, HR, Legislative Committees
John Gamble	(2013)	Curriculum Committee, M.B.I.T. Board, IU#22 Board
Joe Jagelka	(2015)	Operations, Legislative Committees, M.B.I.T Board
Tyler Tomlinson	(2015)	Finance, Operations Committees, M.B.I.T Board Alternate
Kelly Unger	(2015)	Curriculum, HR Committees, M.B.I.T, Board
Jerel Wohl	(2015)	Operations, Finance, Curriculum Committees
Thomas C. McCambridge		Treasurer (non voting)
Sharon L Reiner		Secretary (non voting)

#### Budget Development Contributors

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Nancy B. Silvious	Assistant Superintendent for Secondary Ed.
David P. Weitzel	Assistant Superintendent for Elementary Ed.
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David W. Matyas	Business Administrator
Thomas C. McCambridge	Director of Finance
Suzanne B. Vincent	Assistant Director of Business Affairs
Renee Ziccardi	Accountant



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# Introductory Section

## Executive Summary

### Introduction

The budget process starts in August by developing budget guidelines for administrators. Initial budget requests from the teaching staff are submitted, compiled, and reviewed by building administrators in November. Budget requests are reviewed to assure that they are within allocated limits and meet district goals. The business office develops salary and benefit projections as well as budgets for expenses that cannot be directly attributed to instruction.

A draft budget is presented to the school board in December with a preliminary budget voted on by the school board in January. Prior to the Act 1 budget cycle, the preliminary budget would have been adopted by the school board in May. The accelerated timeline is required under Act 1 to determine if the projected increase in the real estate tax millage rate is over the state determined base index plus and applicable exceptions to increase the base limit (special education costs or retirement system expenses) for 2012-13. If the millage increase was greater than the state limit, the budget would need to be voted on by the local community as a referendum question at the May primary election. Note: in presidential election years the primary election is moved from May to April. The general fund budget for 2012-13 has a real estate millage increase of 1.66% which is slightly below the state Act 1 base index cap of 1.7%.

A 1.66% increase in real estate taxes is 2.0 mills. The estimated revenue from the tax increase is 2.0 mills times \$1,640,000 = \$3,280,000. The old millage rate was 120.8 + 2.0 new mills = the 2012-13 Millage rate of 122.8 mills

School estimated budgets are essentially complete by January so that school districts can communicate with the County Board of Elections and prepare a referendum question for a community vote if the budget exceeds state limits. Certainly a bad feature of Act 1 is that the school budget process no longer is in alignment with the state budget process. In February of each year, the governor presents his version of the state budget and associated estimates for public school revenue. Since the school district budget, in preliminary form, is complete in January, many state revenue estimates and assumptions are uncertain.

A tentative budget is presented to the Board of School Directors and the public during the second school board meeting in April if a community referendum vote is not required. The final budget is adopted by the school board at the second school board meeting in May or June.

Pennsylvania law requires each school board to tentatively adopt a budget then place the budget on public display for 20 days. During this time, the public has a chance to review the tentative budget, provide comment back to school directors, and ask questions at subsequent board meetings prior to final adoption. A budget must be adopted in final form prior to July 1 of each year. A fiscal year runs from July 1 to June 30 of each year.



During 2002-03, the District implemented the requirements of the new national accounting standards known as Governmental Accounting Standards Board (GASB) 34. Central Bucks was required to adopt the new GASB 34 accounting standards during the initial implementation year since the general fund budget exceeded \$100 million dollars. The GASB 34 standards require state, municipal, and school district audit reports to be similar in form to private industry.

The school district also implemented the requirements of GASB 45, post employment benefits accounting, into the 2007-08 budget. GASB 45 requires states, municipalities, and school districts to disclose future liabilities associated with employee benefits in current accounting periods.

During the 2009-10 fiscal year, the district began the process of implementing Act 32 of 2008 which consolidates the 560 different Earned Income Tax Collectors across the state to one per county. The CBSD goal for this process is maintain the current flow and timing of revenues and to minimize potential disruptions that may impact investment income.

The 2010-11 fiscal year brings with it the requirement to implement GASB 54. This is a new accounting requirement to add more detailed classifications to the types of fund balance (financial reserves) in use by a school district or municipal government. The objective is to improve the usefulness and understanding of governmental fund balances by providing more clearly defined categories to increase transparency. In other words, fund balances are classified according to the level of constraints for which amounts can be spent. GASB 54 will also require that the Central Bucks Special Revenue Athletic Fund be reported within the General Fund instead of its own separate fund.

This document attempts to frame the budget in quantitative terms as well as provide graphical and narrative formats to make the information contained in this report as understandable as possible. Comments for improving the budget report can be directed to Susan Vincent, Director of Finance or Dave Matyas, Business Administrator at (267) 893-2000.

Many thanks to the faculty, administrators, and business office staff, for their input and hard work in developing the this budget. Special thanks to our school board members who spent many hours sifting through the financial details, personnel restructurings, and long term planning, to help us arrive at a bottom line budget.

**Summary of the General Fund Budget**

The table below compares the 2011-12 budget to the 2012-13 budget. Due to its size and importance, most of the graphs and analysis will concentrate on the General Fund Budget.

<b>Fund Name</b>	<b>Budget 2011-12</b>	<b>Budget 2012-13</b>	<b>% Change</b>
General Fund	\$ 280,637,079	\$287,238,850	2.35%
<b>Total of all Budgets</b>	<b>\$ 280,637,079</b>	<b>\$287,238,850</b>	<b>2.35%</b>

**District Goals for 2012-13**  
**District-Wide Goals**



For the 2012-13 school year, enhancing the curriculum by making it more rigorous and relevant to the life long needs of students will continue to be a major school district goal. For 2012-13 the district will extend the length of middle school core instructional periods by an additional 10 minutes per day. This change has the impact of giving middle school students 3.75 years of instruction within the three year (grades 7, 8, and 9) program. The core subject areas are Math, English, Science, Reading, and Social studies. The curriculum will also change in 2012-13 as computer skills are integrated into all phases of the Central Bucks course of study.

The district is continuing to implement a new language arts curriculum (being a writer) and a new elementary social studies curriculum (History Alive) in an on-going effort to improve instruction and student learning. In addition, the initial phase –in of the new elementary reading curriculum began in the summer of 2011 with teacher training. The new curriculums will help the district meet No Child Left Behind goals which require 100% student proficiency by 2014.

A new science curriculum was implemented 2009-10. The science curriculum helps students find many ways to solve problems and to see solutions from many different angles. The new science curriculum ties in to the Everyday Math curriculum which helps to show students how the two disciplines are related. Integration of the science curriculum will also help the district meet the federal No Child Left Behind legislative requirements

Security for students and facilities continues to be in the forefront of planning and implementation. As schools are renovated, entrances are redesigned to route all visitors through the main office. Other solutions such as networked based video cameras and magnetic door locks are being employed as well. Discussions with community members and the local police forces continue the dialog and development of system wide approaches to security. Some of the most useful security and emergency measures were achieved through continued use of mock drills. Mock drills help identify areas of emergency and security plans that work and others that need to be refined or deleted. The last phase of security entrance improvements were completed at Tohickon Middle School during the fall of 2011.

In 2008 the district borrowed \$96 million dollars to renovate secondary schools and to convert \$20 million in variable interest rate debt to fixed interest rate debt. During the 2010-11 fiscal year, the district will completed renovations at Lenape Middle School, \$16 million, and Tamanend Middle School, \$16 million. Renovations at East High School (estimated at \$35 million) began in August 2011. Renovations and construction of the East High School proposed stadium are still on hold after many years of legal issues holding up construction. The Bucks County Court of Common Pleas found in favor of the district with respect to construction zoning issues. Neighbors subsequently appealed the zoning of the construction project to the Commonwealth Court. An opinion from the Commonwealth Court was also favorable to the school district. Neighbors of the proposed stadium site had an opportunity to appeal the zoning rulings to the Pennsylvania Supreme Court, but that window of opportunity has lapsed as of April 2012.

During 2007-08 Moody's rating agency upgraded Central Bucks School District's financial creditworthiness from a AA2 to AA1. This helped to reduce the district borrowing cost on the 2008 bond issue particularly since the bond issue was not insured by a third party. In March of 2011, the district refinanced \$170M in outstanding debt saving the district \$1,500,000 per year on average. AAA is the highest rating in the Moody's index. Even with the current



economic downturn, Moody's reaffirmed the district's solid AA1 credit rating. A credit rating of AA1 is one step below AAA.

A continuing goal for the school district is to increase operational efficiency. The district continues analyzing ways to improve the efficiency of real estate tax collection by looking at current operations and costs and comparing them to industry best practices and benchmarks. Moving real estate tax collection to a best practices model will save the school district more than \$150,000 per year. Compensation has been lowered for tax collectors effective for 2010-11 to implement the cost containment with minimal disruptions to service.

For 2012-13, the district will implement a school district initiated real estate tax assessed value appeal. The assessed value of real estate is an amount taxable by the school district and municipalities by applying a taxing millage rate to determine the amount of taxes owed. The school district is comparing the assessed value of a property to the market value of properties to determine if the two numbers are in the proper proportion. The district has identified 44 properties that have an assessed value that is too low compared to the market value. Upon initial review, it appears that each of the 44 properties is underpaying school district real estate taxes by at least \$4,000 per year. The district will hire an appraiser to review the 44 properties and make recommendations on moving forward with the tax appeal filing process with the Bucks County Assessor's Office.

During fiscal year 2009-10 the district initiated an energy conservation and efficiency project. The cost for the project was \$15 million. CBSD is partnering with Johnson Controls Inc. to replace out dated heating boilers, replace old lighting with more efficient units, adding insulation, and unifying all building environmental controls under one system. In addition occupancy sensors are being placed in classrooms to lower lighting levels if natural light is available, turning off lights automatically, and adjusting fresh air exchange rates based on classroom usage. This project was completed in December of 2011. It is anticipated that the efficiency project will annually save the district in excess of \$1M per year in utility expenses.

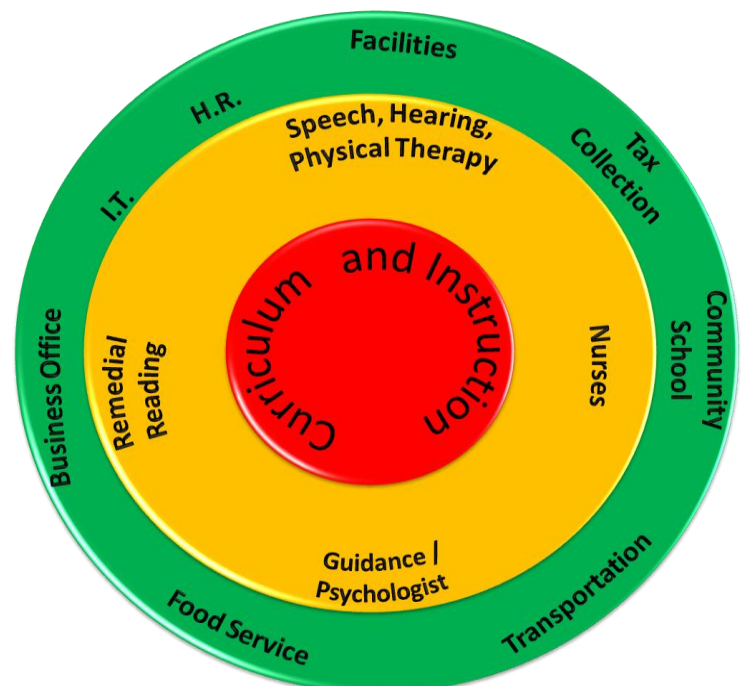
One recurring district budgetary goal was not met as the 2009-10, 2010-11, 2011-12, and 2012-13 budgets were developed. This goal is not to use any fund balance savings or rainy day money as a revenue source to offset recurring expenses. The economic downturn of late 2008 and its related impact have created a significant downward trend on local tax revenues. To combat the reduction in revenues, expenses continue to be cut from each year's budget. After four years of expenditure reductions, the district is starting to catch up with the reductions in revenues totaling over \$15 million per year. Therefore in 2012-13, \$1.2 million in fund balance reserves will be used as revenue to reduce the real estate tax millage impact on the local community. Three million dollars of fund balance reserves were budgeted as additional revenue during the 2011-12 fiscal year. It should be noted that if additional state revenues are made available to school districts by the legislature, the fund balance usage could drop to under \$1 million.



## District Goals for 2012-13

### Completed and On-Going Goals

- Develop \$7 million in recurring funding for capital accounts to maintain district facilities that are worth approximately \$750 million.
- Implement the new real estate tax bill installment payment option for commercial properties per Act 25 of 2011.
- Fund mandated increased contributions to the state retirement system. Continue to prepare for a large retirement rate increases in fiscal year 2012-13 through 2016-17
- Implement phase 4 of the new Business Office and Human Resource Office software.
- Analyze the number of credits required for graduation.
- Implement the new middle school academic schedule changes
- Implement school district initiated assessment appeals
- Work with state legislators to secure more funding
- Work with state legislators to repeal burdensome mandates
- Analyze ways of increasing district fees for services provided
- Continue reducing costs that do not impact the core instructional program.





**Economic Overview****National and Local****Fiscal 2011-12 in Review:**

In the last 12 months, the local economy has not improved measurably. The Gross Domestic Product GDP index has remained positive for several quarters which technically ends the “great recession of 2008 and 2009”. The problem on a national level continues to be high unemployment with the index hovering around 8%. The economic recovery continues to be painfully slow. The major market that is impacting school districts around the country is the stagnant to declining real estate industry. Most school district in Pennsylvania depend heavily on local real estate taxes to fund education programs. Until the unemployment index starts returning to the 5% range, the economy will feel depressed on a local level. A high unemployment rate also tends to depress the real estate market which directly impacts 75% of the revenue Central Bucks receives.

While the stock market has generally been rising during 2012, the increase can be attributed to increasing corporate profits through efficiency gains and staff reductions as a cost cutting measure. The future of employee related expenses is murky with the enactment of national health care. Health care along with large federal deficits, proposals for higher federal income tax rates, and the fiscal stress of some European countries is creating an environment of business uncertainty that may be holding back the hiring process. The debate also rages about how to cut the federal deficit with the focus on the largest consumers of federal dollars, Medicare, military spending, Medicaid, and social security. All of these issues have a psychological impact on business hiring and consumer spending, particularly home purchases. The economy will need to pick up more steam before businesses will be forced to start the hiring process in response to greater demand for products and services.

On a brighter note, foreclosures on homes seem to have stabilized and mortgage interest rates are hovering around in the high 3% range for 30 year mortgages at the mid point of 2012. Hopefully, the housing market will start to recover with price stability and demand for new construction. The sales center for the Carriage Hill housing development on Route 313 states that new housing units are selling at a slow but consistent pace which hopefully will signal an expansion of the local housing market.

**The Impact of the Global Recession on Central Bucks Revenues:**

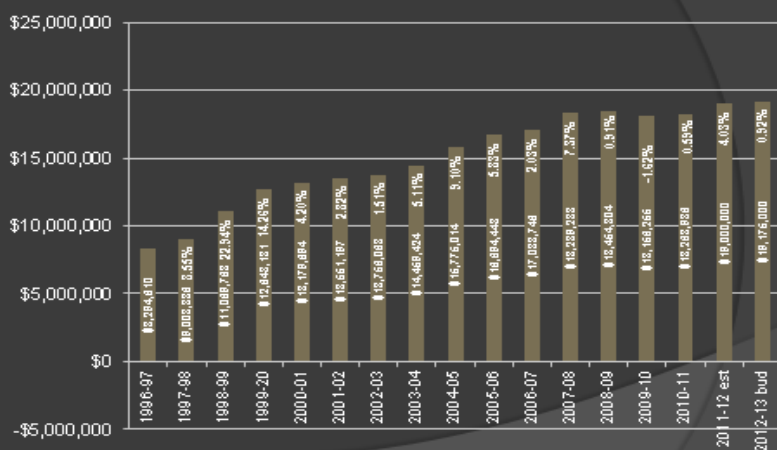
These significant global events had a major impact on our local economy and school district finances.

The global recession is creating significant downward pressure on projected district revenues. Since

the school district must develop a balanced budget, major reductions to budgeted expenditures must also occur to keep revenues and expenses in line with each other.

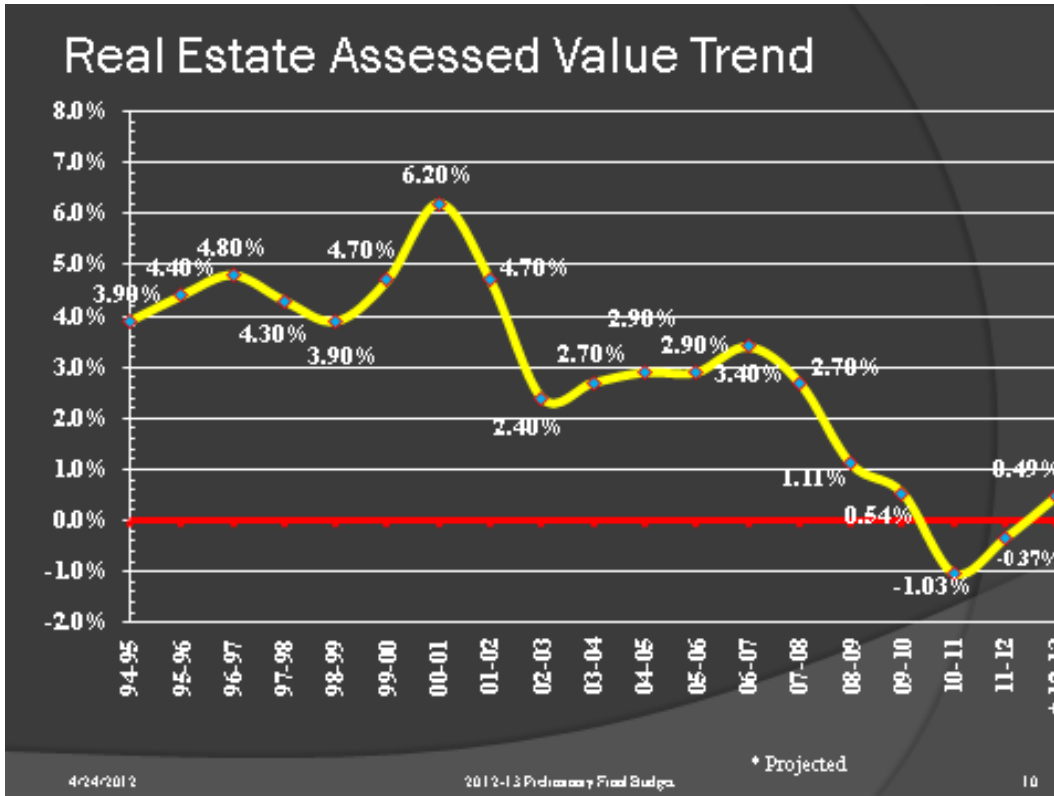
The Federal Reserve’s policy to push interest rates lower to spur investment in real estate and infrastructure lowered the interest rate earning projections on school district investments.

The high unemployment rate has caused concerns and has created a

**Earned Income Tax Trend**

difficult budget environment to project Earned income Tax revenues.

The housing market, which played a major part in creating the economic crisis, is also playing a key role in reducing revenue projections for real estate taxes. Local real estate taxes account for 75% of all revenue received by Central Bucks School District. It's no wonder that an economic recession lead by the decline of the real estate and financing markets has caused reductions to revenues that the school district has not seen in a long time – if ever.



The taxable assessed value of real estate is being appealed as the market value of property declines. This causes a reduction in real estate tax revenue collected by the school district and puts upward pressure to increase the mills of real estate taxes to maintain tax income. Since school districts tend to rely heavily on real estate taxes, and reduction has a major impact on budget planning

and cash flow projections.

### Local Real Estate Assessment Appeals

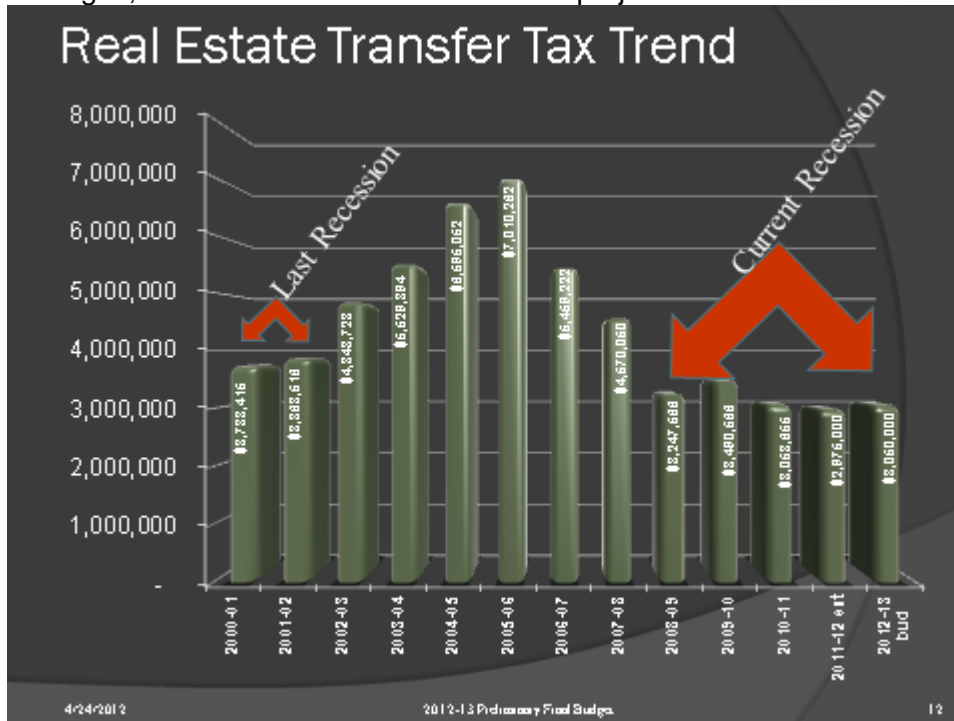
**Due to Real Estate Assessment Appeals the District is Losing Over \$5M per Year in Revenue**

- CBSD has 22% of Bucks County students
- CBSD had 46% of the real estate assessment appeals in the county
  - Council Rock - 16%
  - Neshaminy - 9.3%
  - Pennridge - 8.7%
  - Pennsbury - 6.3%
- The assessment appeal trend will probably continue in 2012-13.

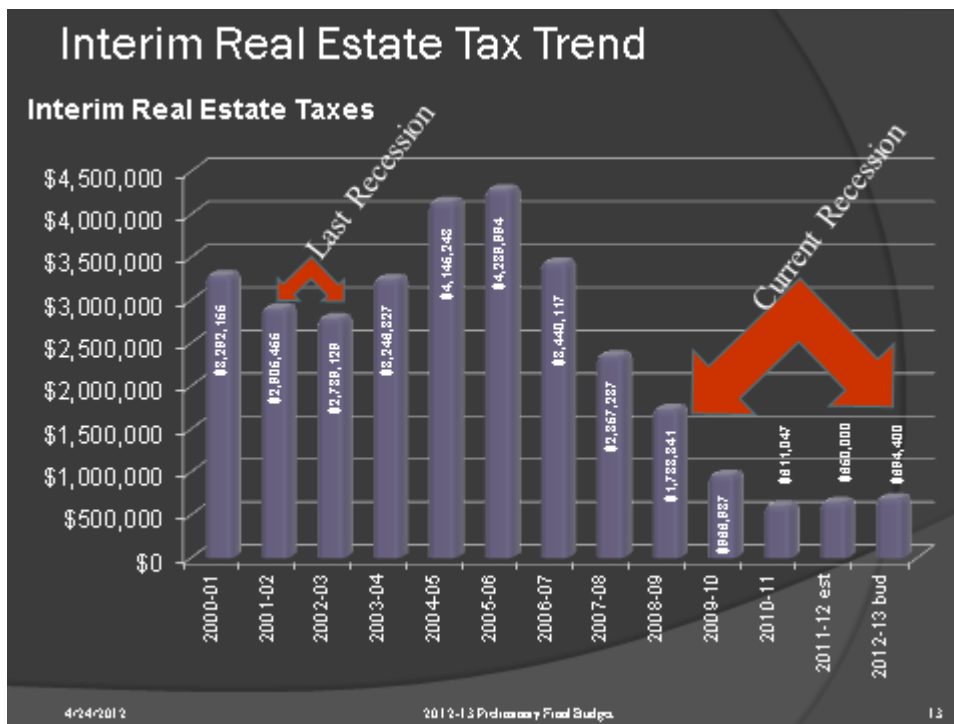
School districts rely on real estate taxes because they have historically been a steady source of funding – even during recessions. Public school districts need a steady sources of revenue because they cannot turn students away during economic downturns. Public schools must educate students regardless of the financial climate. During a bad economic climate, school districts must find areas to reduce expenses and find non-tax revenues in order to maintain a quality education product.

Teachers cannot be laid off for economic reasons in Pennsylvania. This places additional financial burdens on all public schools throughout the state during severe economic downturns.

The school district receives a real estate transfer tax equal to ½% of the sales amount of real estate. With the decline in the real estate market and the number of existing homes sales down from historic averages, revenues from transfer taxes are projected to remain low for the budget year.



With concerns in the job market, new home construction is limited and therefore is not providing the growth in taxable real estate assessments that the district has seen in the recent past.



Less construction also reduces projected interim real estate tax revenue. Interim taxes are revenues collected from properties that complete construction after the start of the school district fiscal year. Therefore interim taxes are calculated on a fraction of the property value for the year.

### General Fund Overview

## 2012-13 Budget Snapshot

- Total Revenues = \$286,058,850
- Total Expenses = \$287,238,850
- Use of Budgetary Reserves (\$1,180,000)
- Millage Increase Needed = 2.0 Mills
- This Represents a 1.66 % Real Estate Tax Increase
- Tax Increase on a 40,000 Assessed Home = \$80
- The new Millage Rate is 2011-12 mills of 120.8 + 2.0 mills = 122.8 mills for fy 2012-13

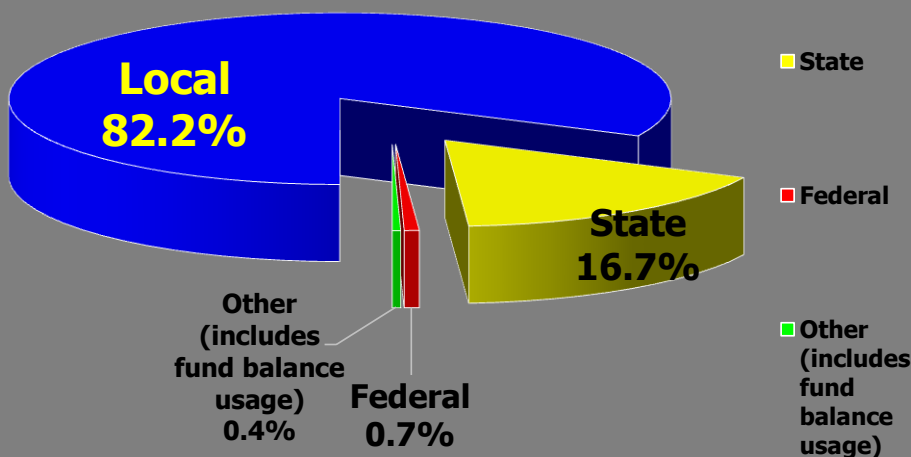
The 2012-13 General Fund budget of \$287,238,850 calls for a real estate tax millage increase of 2.0 mills or a 1.66% tax increase. The expenditure budget is increasing by \$6.6 million over 2011-12 levels or approximately 2.35%.

A tax increase that is slightly below the Act 1 base index of 1.7% is recommended to help the district meet its long term financial requirements to fund the Pennsylvania

School Employees Retirement System (PSERS). For 2012-13 the employer share of PSERS funding contributions will be 12.36% of gross payroll growing to 28% of gross payroll in 2019-20. The 2012-13 real estate tax millage increase of 2.0 mills will increase the real estate taxes of a typical home owner with an assessed value of \$40,000 by an additional \$80 in real estate taxes. This is the second lowest tax increase since the early 1990's when the tax increase was \$0. [2011-12 tax increase \$64, 2012-13 tax increase \$80]

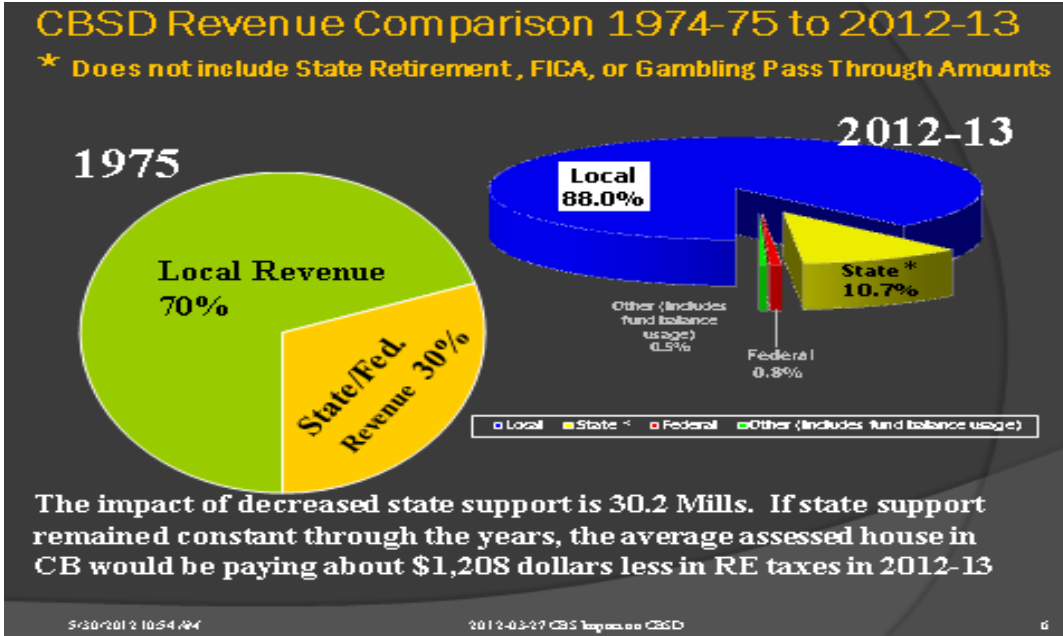
### General Fund Revenue Components

#### Major Sources of Revenue



School district revenues have four major components, local, state, federal, and other sources of revenue. As you can see from the graph on the left, local revenue (real estate taxes, earned income taxes, investment income) makes up the majority of the Central Bucks School District revenue budget.

In 1975, state and federal revenues accounted for 30% of total revenue. In 2012-13 they will account for 11.5% when we perform an “apples to apples” comparison of revenue accounting between 1975 and 2012. In 1975 there were no casino and no gambling pass through revenues to reduce property taxes. In 1975, the state sent social security and retirement reimbursement directly to the social security administration and PSERS instead of using



school districts as a pass through agency as they do now. Currently Pennsylvania school district must account for gambling, social security, and PSERS revenue as state subsidy. In 1975 this was not the case so these items were removed from current state revenue in this

comparison to show the decline of state support for Central Bucks education over the years.

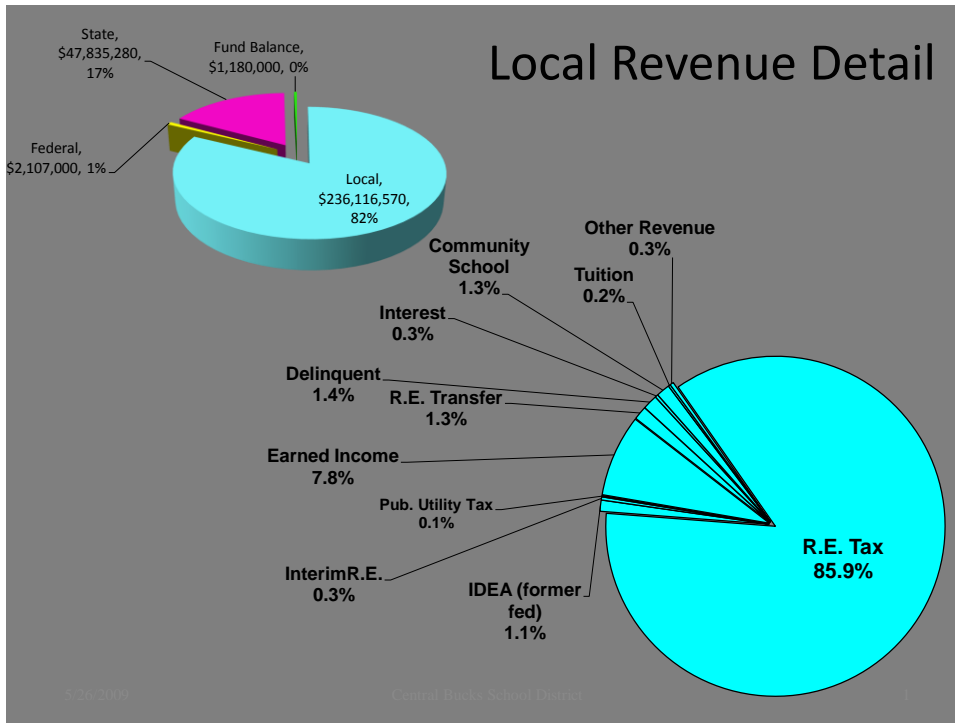
As an example, between 2008-09 and 2009-10 Central Bucks School District lost \$1,900,000 in transportation subsidies due to the increase in market value of property in the district as compared to the entire state. In the eyes of the state, this makes the Central Bucks community look wealthier and therefore reduces state subsidies.

In 2011, the district lost \$850,000 in the Accountability Block Grant which helped fund extended day kindergarten. Charter school reimbursement of \$150,000 was eliminated as well as State basic instructional subsidy of \$500,000. These are just recent example of the erosion of state support over the years. Declining state revenues means that local taxpayers must shoulder an increasing share of education expenses. Federal education support had also declined slightly in recent years (factoring out the temporary stimulus program). This combined with the additional requirements created as a result of No Child Left Behind (NCLB) legislation puts an even greater burden on local taxpayers.

The general fund expenditure budget for 2012-13 increased by \$6.6 million dollars over the prior year. The 1.66% or 2.0 mill real estate tax increase is estimated to raise an additional \$3.3M of local tax revenue. Anticipated additional state subsidies to offset additional retirement system (PSERS) costs are projected to be \$2.1M. Historically the state reimburses school districts for at least 50% of retirement expenses. That will change starting in 2012-13 as the state will freeze retirement reimbursement based on the 2011-12 gross payroll. This action will help reduce the state’s share of retirement expenses and push a larger and larger burden on to local tax payers in the future. [the same scenario is happening with Social Security Revenue]

To fund the deficit between revenues and expenses, \$1.2M from a district savings account “rainy day funds” will be used to balance the budget. This is the other/fund balance revenue category in the revenue pie charts.

### Local Revenues



Local revenues consist mainly of real estate taxes, public utility taxes, earned income taxes, and interest earnings. As you can see, real estate related taxes and Earned Income Taxes together account for 97% of local revenues.

### Revenue from Local Sources

This revenue category is the amount of money produced within the boundaries of Central Bucks School District and available for its use during the budget year. Money collected by another organization that is working as an agent for CBSD such as the collection of earned income taxes is considered local revenue. (The following paragraphs are prefaced with the state accounting numerical code for the given functional area)

6111 Real estate taxes on homes and businesses. Many, many homeowners appealed the assessed value of their homes from 2008 -10 through 2011-12 due to declining market value. CBSD expects to continue receiving assessment appeals from residential and commercial property owners that will impact the 2012-13 budget. These appeals will create a drag on taxable assessed value growth. For 2012-13 taxable assessed values are expected to increase slightly which is a welcome change from the past two years of declining assessed values. All told, the district expects to collect at least \$5,000,000 less per year in real estate taxes since the assessment appeal process started in 2008.





In past years, the growth in assessed values would generate between \$3 - \$5 million in additional revenues before a tax increase. A real estate tax collection rate of 97% will be used in projecting the 2012-13 real estate tax revenues. The proposed millage increase of 2.0 mills is projected to increase real estate tax revenue by \$3.3 million dollars. One mill is expressed as a decimal of .001. 2.0 mills are expressed as .002. A tax increase of 2.0 mills on a typical house in Central Bucks School District assessed at \$40,000 =  $\$40,000 \times .002 = \$80$  increase in real estate taxes. This is the second lowest tax increase by the school district since the early 1990's when there was no tax increase in a year.

6112 For 2011-12, collected interim real estate taxes are projected to be \$350,000 below the budgeted amount. Hopefully the local real estate economy will pickup some growth momentum. As of June 2012 there is a seven month backlog of unsold houses in the area down from a 8 month backlog a year ago. The slow housing market is due to the sub-prime mortgage failures, foreclosures on homes, persistent unemployment, but, favorable mortgage interest rates could help reduce the backlog of housing inventory. Interest rates on a 30 year fixed interest rate mortgage are around 3.75%, which are near historic lows. Looking at the national housing market, the price of houses in 2012 continue to fall so that they are now equivalent to 2002 prices. For fiscal year 2012-13 this revenue line is expected to be \$300,000 below the current budget amount of \$1,000,000 with hopes that the economy will start a growth pattern in the second half of 2012 due to favorable mortgage rates and home prices.

6151 Earned Income Taxes (EIT) are projected to increase above 2011-12 budget estimates by approximately \$300,000 or 1.6%. As of May, the economy is unsteady with unemployment hovering around 8.1%. The consumer confidence index is declining and housing sales are slow but steady. Keystone Associates anticipates stable slow growth in the near future. Keystone Associates acts as an agent on behalf of the District to collect a one half of one percent EIT from residents of CBSD.

6510 For 2012-13, projected interest earnings will continue the downward trend from 2007-08 budget levels. Short term interest earnings on investments held steady throughout 2011-12. It is anticipated that the Federal Reserve Board will continue to fix the Federal Funds rate at low interest rates through the middle of 2014 maintaining expectations of lower earnings from investments. In 2012-13 investment income will decrease by 33% over budgeted 2011-12 levels and decrease by 82% compared to the 2007-08 budget.

6553 School districts in Pennsylvania receive one half of one percent of a transfer tax on real estate sold within its borders. We are expecting a downward change over the 2011-12 budget year. 3.75 percent mortgage interest rates may attract new buyers into the housing market, but projections are for declining revenues of \$275,000 from this line item of the budget. Low interest rates are only one factor when deciding to purchase a new home. The main factor most people consider is the possibility of steady income and maintaining a job. The market value of property declined in 2007, 2008, 2009, 2010, 2011, and so far in 2012. Plans for new housing developments have been on hold for the most part, causing student enrollment growth projections to decline by approximately 400 for 2012-13. In the past, any excess funds from this revenue source have traditionally been transferred to capital





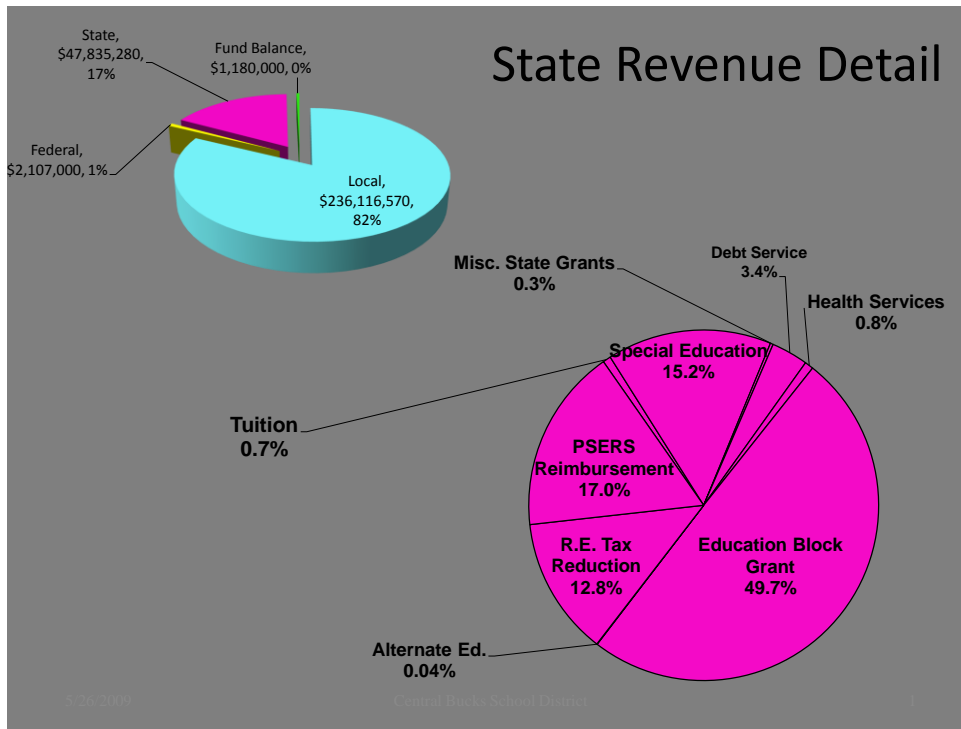
reserves as higher real estate transfer taxes tend to be a precursor of increasing enrollment and increasing demands for capital. Falling taxes may also signal declining enrollment.

6980 Community service revenues are projected to be flat. Enrollment may decline in our after school child care programs if unemployment continues to hold at around 8.2% nationally and approximately 6.5% locally. Student enrollment declines at the elementary school level will likely lead to less participation in the child care program over time.

Child care fees for 2012-13 have been increased so that they are more closely aligned to the market rates of other child care providers. Adult evening school courses have been eliminated since the programs have traditionally run at a break even position or at a slight loss over time. The summer kids camp was also eliminated. Although the camp was slightly profitable, it was decided to cancel the program as a part of the energy efficiency program to control summer air conditioning expenses.

More revenues are also expected from the academic summer school courses which are run as a consortium of Central Bucks, Council Rock, Centennial, and New Hope school districts in an effort to control costs. The aquatics program continues to expand now that the District operates two pools, East & South High Schools, and should be in a position to generate more revenues in the future.

## State Revenue



State sources of revenue historically include Basic Instructional Subsidy, Special Education Subsidy, Transportation reimbursement, and building project reimbursements.

For 2012-13, Governor Corbett recommends combining state basic instructional subsidies, Social security reimbursements, and transportation reimbursements into one block grant -

Student Accountability and Education Block Grant (SAEBG). The stated purpose of combining revenue accounts into one block grant is to give school districts more flexibility to spend state subsidies. The block grant concept does not provide more spending flexibility. What it does is uncouple the transportation and social security subsidy formulas from inflation factors. The long term impact of the new SAEBG revenue concept is shifting future costs from state based support onto local tax payers.

The budget anticipates 0% increase in basic instructional subsidy, transportation, or social security from the State which are now combined into the SAEBG. Typically the district sees a 2% increase per year in basic state aid.

When comparing 2011-12 to 2012-13 state revenues, it looks like the district is receiving an increase in state subsidies. The district is receiving an increase in state retirement reimbursement of \$2.25M due to the employer cost share increase. But, we must remember that the retirement revenue is a pass through revenue. A pass through revenue is received from the state and then the school district must forward it on to the PSERS retirement system. Pass through revenues cannot be used to buy textbooks or pay utilities. They must be used for the stated purpose – to pay PSERS. The accounting and understanding of state revenues would be much simpler if the state would send the money directly to PSERS as it did prior to the 1990's.

The same pass through scenario is true with state funds earmarked to pay the state share of social security expenses.



The budget anticipates 0% increase in special education subsidy as well. 2012-13 will be the fifth year in a row that the state has not increased special education subsidies.

Transportation reimbursement is expected to be frozen although it is hard to predict since it is combined into the new SAEBG. The governor's budget eliminated the Accountability Block Grant Revenue of \$850,000 and charter school reimbursement of \$150,000 in his 2011-12 budget.

The state revenue estimates are based upon the governor's budget as presented in February and updated in May 2012. The state legislature may modify some of the governor's recommendation prior to the budget passage in late June.

State subsidy support continues to be below the rate of inflation. This places an ever growing burden on local taxpayers.



## Revenue from State Sources

This is revenue produced and collected within the Commonwealth of Pennsylvania. State revenues are distributed to the school districts, vocational-technical schools, and intermediate units through funding mechanisms that are loosely based on the student enrollment, and relative wealth of the local geographic area. The allocation of state subsidies in the recent past and in the foreseeable future is based upon how much money is allocated to the public education line item at the state budget level, not upon the individual needs of a school system.

7110 Basic state instructional subsidy is the primary funding source school districts receive from the state. Basic state instructional subsidy is now combined with transportation and social security revenues to form the new Student Accountability and Education Block Grant (SAEBG). No increase in the SAEBG components are expected for 2012-13. In 2007-08 a Costing Out Study was conducted by the state to determine the spending levels of each school district in the Commonwealth. The study uses the 2014 No Child Left Behind (NCLB) standards to determine if schools are spending enough money per student to meet NCLB benchmarks. The Costing Out Study considers many factors such as cost of living in a geographic area, non-English speaking students, poverty level, size of a school district, real estate and income wealth factors, and the number of students with disabilities. The study revealed that Central Bucks School district is spending \$2,000 less per child than is needed to meet federal standards. This is significant considering that many school districts in southeastern Pennsylvania are spending near or above Costing Out Study targets. Since Central Bucks is significantly below the Costing Out Study target, more state education revenue should be earmarked for our district but, likely will not be funded due to the current economy.

7270 State subsidies for special education are projected to be flat 0% increase over 2012-13 budget-to-budget levels. Again, this is the fifth year in a row that no state increase was given for special education.

7310 In the past, state transportation subsidies were based on the age of a bus, the number of miles driven, the school district aide ratio, and the market value of real estate in the district, and the inflationary cost of fuel. These numbers fluctuate each year making transportation subsidies difficult to project. For 2007-08 the district was projecting a 4.4% increase in revenues due mainly from the increase in student enrollment and the associated growth in the bus fleet mileage expenses, and the large increase in fuel prices. But, in March of 2008 the district was notified by the state that it would lose \$933,000 in transportation subsidies for 2007-08 and over \$1,000,000 in 2008-09, and additional reduction of \$75,000 in 2009-10, and \$75,000 in 2010-11 due to the increase in the real estate market values compared to the entire state. These decreases in state transportation revenue are recurring and are not just a one year reduction. The real estate market values makes the school district appear wealthy and significantly reduces the ability of the district to recover excess transportation costs from the state as has been done in the past. Excess transportation costs



are calculated by the state as items that exceed the typical state transportation cost formula. Central Bucks expenses typically exceed the formula because no provision exists to compensate for the cost of living in specific geographic areas.

This all become a transportation history lesson as the governor is recommending transportation be included in the SAEBG. The inflationary components of the transportation formula will be lost resulting in a larger transportation burden to local tax payers as inflation increases from year to year.

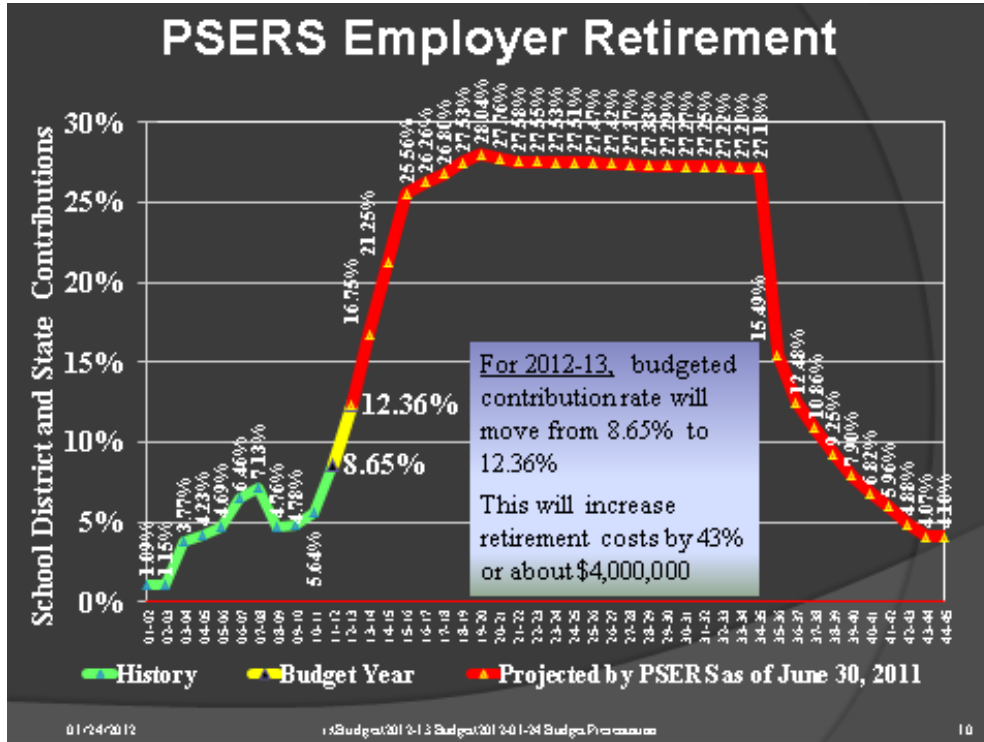
7320 Authority rental reimbursement is a state subsidy that partially reimburses an educational agency for school construction expenses. In 2012-13, this revenue line should remain unchanged as the state has placed a moratorium on funding additional construction projects. This will impact construction reimbursement on the following projects: Pine Run Elementary, Linden Elementary, Lenape MS, Tamanend MS, Unami MS, and East HS. Hopefully the moratorium will only last one year. The district has enough fund balance to cover the lost cash flow from the state. It is not anticipated that the district will need to stop the construction projects as a result of the state funding moratorium.

CBSD pays for approximately 50% of outstanding debt for Middle Bucks Institute of Technology (MBIT). The recent bond issued by MBIT has reached the point where it is level funded by all sending school districts (Centennial, Council Rock, New Hope-Solebury, and CBSD) and the school districts should see only minor fluctuations due to percentage changes of market values or enrollment from each sending school district. In 2008, CBSD borrowed approximately \$96 million to renovate CB High School East, Lenape Middle School, Tamanend Middle School, Warwick Elementary, enhance district security, and fund various roofing projects. The district also used approximately \$20 million of the 2008 bond fund to retire variable rate debt. The decision was made to convert variable rate debt to fixed rate debt due to the surge in short term interest rates as a result of the credit crisis of bond insurers during the 2008-09 fiscal year.

The district receives a reimbursement of less than six cents for each dollar spent on construction. The district also pays a 6% sales tax on construction materials which then negates most state construction aid.

In March of 2011, the district restructured \$170,000,000 of outstanding debt to save \$1,500,000 per year, on average, in an attempt to reduce costs. No extra state subsidies will be received due to this restructure.

7820 Revenue for retirement payments is a reimbursement for 50% of the cost of contributions to the state retirement system. The state retirement system was actuarially fully funded at the turn of the century. Currently, the Pennsylvania School Employees Retirement System (PSERS) is 70% funded. Governor Corbett is recommending a change to the state retirement subsidy to decouple it from the inflationary aspects of past formulas. Starting in 2012-13 the retirement subsidy will be based on the gross payroll of the 2011-12 fiscal year. Any retirement expense increases associated with wage increases will not be covered by state funds. Again, this places more burden on local tax payers. The governor still intends to pay the state's share of the employer's contribution.



The employer contribution rate to the retirement system was declining until 2002. The recent stock market losses as well as the market loss from the early 2000's caused an increase in the employer's share of retirement contributions. CBSD is trying to budget for PSERS contribution levels above what is required in an effort to help minimize the tax increases in the future as a result of the retirement

funding spike.

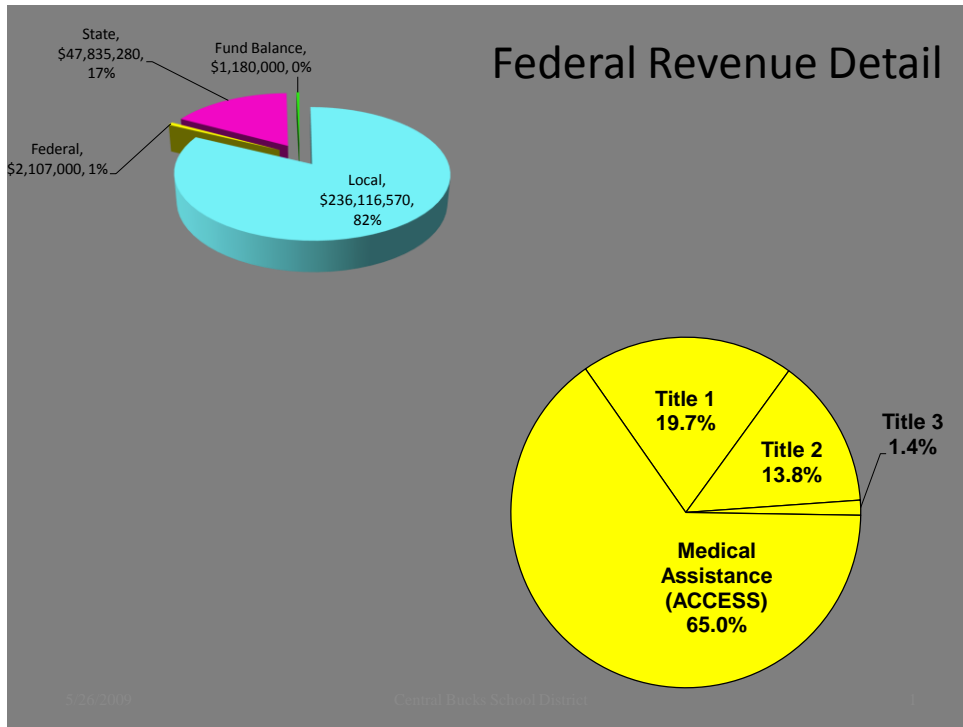
The budgetary impact of following the revised legislator PSERS funding calculation could have a devastating impact on future budgets if school districts are not prepared or if the state itself is not prepared. The legislative "fresh start" increases the employer contribution at a slower pace than actuaries recommend which results in a higher contribution peak.

In 2003, the state legislature increased the amortization period for recognizing retirement fund gains and losses in an effort to reduce the long term employer's share of retirement funding expenses. As an example, prior to the 2003 legislation the employer retirement contribution was projected to increase to approximately 20% in 2006-07. The change in the amortization period moved the extremely large increase in the retirement fund rate out to the 2012-13 fiscal year.

The legislature's 2010 "fresh start" again re-amortized pension liabilities to keep employer contributions lower and increase the contributions at a slower pace. For the past 10 years, the state has been underfunding pension programs which has led to the large future contributions in order to keep the pension systems solvent. Hopefully the stock market will climb and increase the retirement fund earnings from investments. Higher fund earnings will reduce future year employer contributions. The school district must prepare for the large increase in the retirement contribution rate by adding \$1.5 million dollars per year to the general fund budget to pay for this liability. All school districts in Pennsylvania as well as the state government itself must address this problem.

It should be noted that school boards never have had any input into the workings of the retirement system. Everything is controlled from Harrisburg, especially the amount school district must contribute into the system.

### Federal Revenue



Federal sources of revenue include Title 1 which focuses on improving the reading skills of disadvantaged children. Title 2 focuses on teacher training in math and science skills. Title 3 funds are used to educate students with limited English proficiency and immigrant students.

Drug Free Schools grants were discontinued after 2009-10 and were used to educate students on the

dangers of drug usage. The district continues its drug free curriculum as a component of health classes, but special assemblies, speakers, and healthy choice promotions, have been eliminated.

And finally ACCESS is a reimbursement to school districts for medical related services provided to eligible students who have special needs.

### Revenue From Federal Sources

Over the years, federal revenue sources have steadily declined with no increases seen for the large enrollment growth the district experienced. Estimates for 2012-13 show a reduction in Title 1 of \$59,000 and Title 2 of \$57,000.

### Federal Stimulus Funding History

For 2010-11 the school district received \$1,250,000 in federal stimulus subsidies. This one-time stimulus payment had to be used to enhance special education services to students. It could not be used as a replacement for local funding of special education. The district purchased textbooks and other instructional materials for our special education program. We also hired additional teachers to enhance the program as required by the stimulus guidelines.

This concerns the school board and administration since hiring teachers is a long term financial commitment and the stimulus funding is short term. School districts also cannot





layoff teachers for economic reasons once they are hired. As you can see, stimulus subsidies come with strings attached and can have the unintended (or maybe intended) consequence of pushing more special education costs to the local community once the stimulus funding is eliminated.

The 2009-10 Basic Instruction Stimulus of \$940,569 is federal funding that flows through state governments. This stimulus line item was eliminated from the 2010-11 budget causing these expenses to be paid for with local taxes.

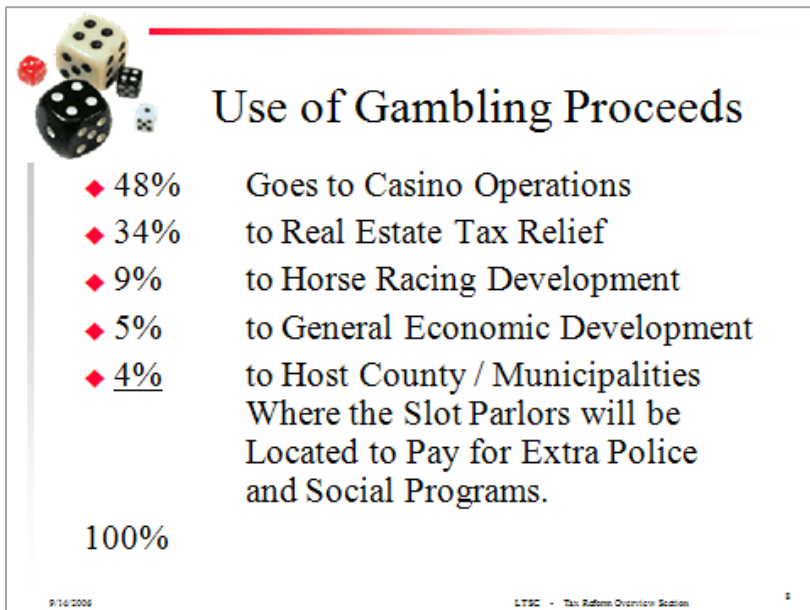
For 2011-12 all stimulus funding stopped, this created the funding cliff that the district was concerned about. Stimulus funding was about hiring new people which is a long term commitment without long term funding. This is one reason why the district must reduce staff to keep revenues in line with expenses.

## Tax Reform - Act 1 of 2006

During the 2006-07 fiscal year, a tremendous amount of time and energy was spent by the school board and district administration analyzing the complexities of Act 1. Preparation of the district budget, tax collection procedures, and preparing the community for the impact Act 1 could have on individual households was the primary focus of the school board.

Act 1 is legislation past by the Pennsylvania Legislature in June of 2006. The law establishes a formula that school districts can use to reduce real estate property taxes for eligible home owners.

Reductions in real estate taxes are funded by two separate revenue streams. Thirty-four percent of future casino slot machine revenues would be made available by the state for



residential property tax reduction. Also, if the communities that make up a school district vote to participate in the plan to shift some of the tax burden from residential real estate to wage taxes, the school district would be required to raise the earned income tax by 1%. A 1% increase in the earned income tax would produce enough revenue to reduce real estate taxes on residential property by \$972 (this option was voted down by the Central Bucks Community in May 2007).

An estimate received from the state legislature shows that a qualified Central Bucks home owner would receive a real estate tax discount of about \$211 to \$370 per year dependent upon casino gambling profits. To achieve a \$370 per home real estate tax discount, casinos across the state must generate approximately 3 billion dollars per year from gambling operations. Estimates for 2012-13 show eligible homeowners receiving a \$211 gambling rebate. The rebate is also likely to fluctuate from year to year because there will be changes in the number of eligible homeowners to share in the rebate distribution.

Act 1 does not provide any extra revenues to school districts nor does it solve the education funding inequities that exist. Under Act 1, school districts act as a “middle man” collecting gambling proceeds from the state to pass through to home owners as discounts on their real estate tax bill.

Act 1 provides real estate tax discounts only to home owners. Commercial properties are not eligible for a discount. Apartment tenants are not eligible for discounts since apartments are considered commercial property under Act 1.

Act 1 also places constraints on school districts budgets. The constraints are on the budget development timeline which are accelerated to conform to election schedules. A budget cycle based upon the election schedule is needed if a school district budget increase



exceeds a state inflation index. If a budget does exceed the inflation index, a referendum vote by the local community is required to pass the budget.

There are some exceptions which allow budgets to exceed the inflation index. In general they are:

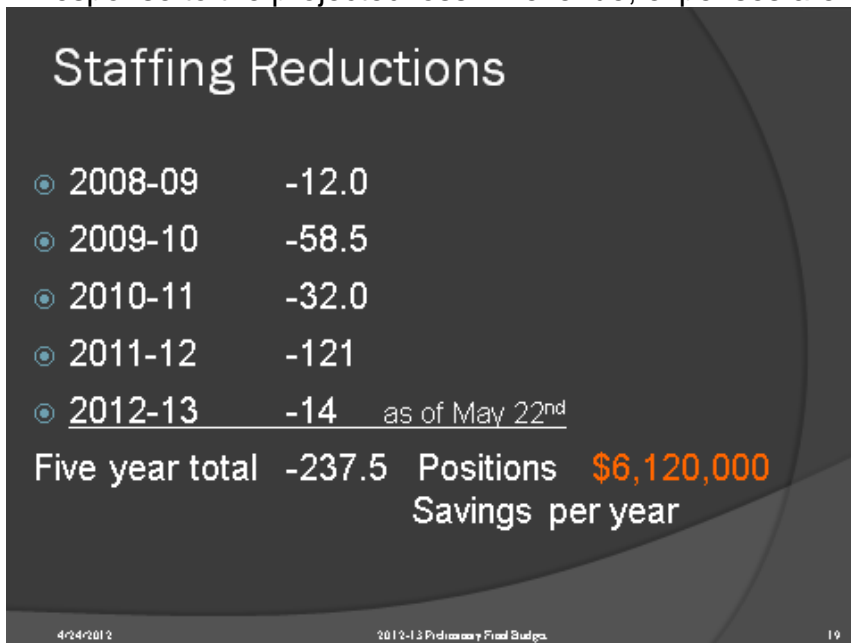
- Community poverty
- Large increases in the contribution to the state retirement plan
- Large percent increase in special education expenses
- Authority to make preexisting debt payments

### Summary

The budget outlook for 2012-13 continues the trend from prior years. Local revenues continue to decline mainly from a depressed real estate market and property owners appealing the assessed value on their homes to reduce their tax obligation. Earned income taxes on wages are predicted to be stable for the budget year with a 1.66% increase projected. State revenues are increasing by almost 10% due to mandated employer share increases into the school retirement system (PSERS). Subsidies received from the state for the employer share of retirement expenses are considered pass-through funds. The state sends a PSERS contribution to school districts who turn around and forward them to PSERS.

In response to the projected loss in revenue, expenses are reduced to help balance the

budget. Since the majority of expenses in a school district are personnel related, 12 positions were eliminated during 2008-09 58 position in 2009-10, 32 in 2010-11, 121 positions in 2011-12, and 14 positions in 2012-13.



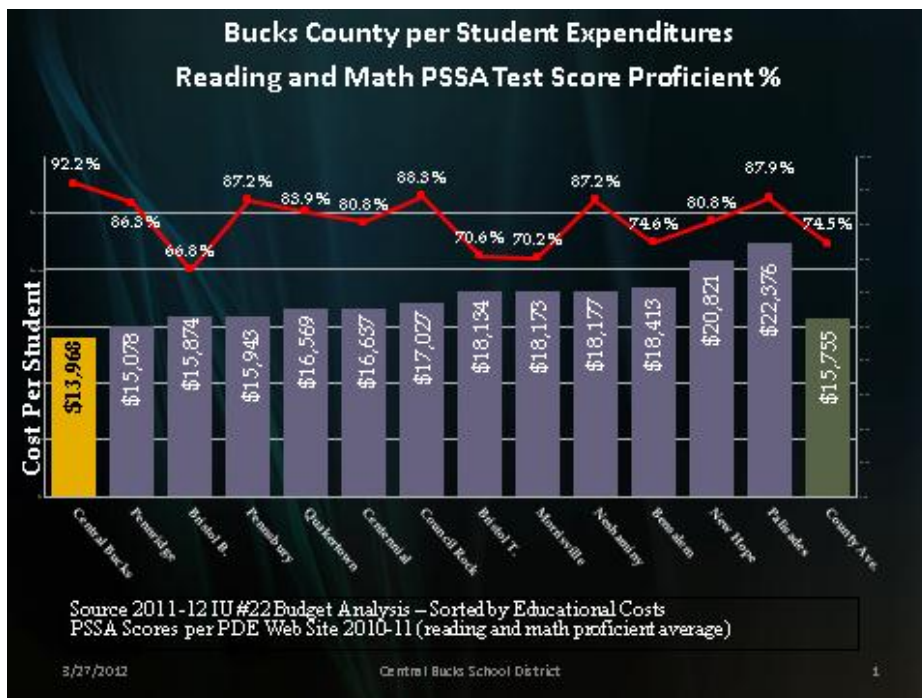
With staffing and other non-personnel budget cuts, an additional \$1,180,000 in expenditure reductions is needed to balance the budget. Instead of making further personnel reductions that would hurt the education program, it was decided to use

fund balance savings or rainy-day money to balance revenues with expenses. The budget must be monitored very closely during 2012-13 to make sure revenues track throughout the

year with budget projections. If revenues fall below budget expectations, additional expenses must be cut to preserve the budget plan.

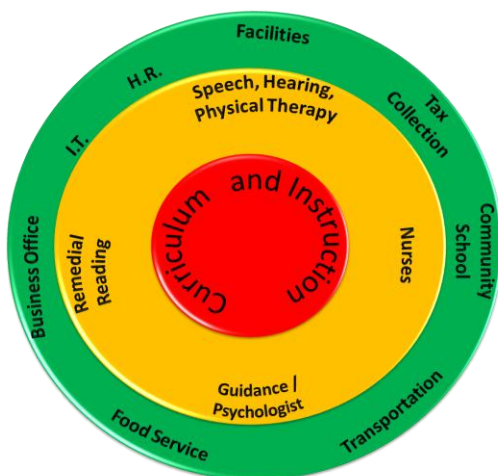
But, not everything is a negative. The district is very proud of the academic achievements of our students as well as the countless hours they give back to the community on the form of volunteer work. For 2011-12, News Week magazine recognized all three high schools as being among the top 1,000 high school in the nation. Student scores on the state standardized test continue to be the best in the county.

The district is also very proud that through the economic turmoil, the financial health is still solid and academic achievement is one of the highest performing school districts in the state of Pennsylvania. Central Bucks is consistently rated among the top ten academic school districts in the state. To this point, our students have the highest test scores on Bucks County and the lowest cost of education in the county. This is a very difficult combination to achieve but one that the district is committed to - excellence with value to our community.



The line graph is an average of the state standardized test scores for reading and math for each Bucks County school district. The bar graph shows the cost of education per student by dividing the general fund budget by student enrollment. Excellence and value do not happen by accident. The district thanks parents for placing high values on education and working with their children on homework assignments. The teaching staff and

curriculum development staff do a wonderful job of finding teaching strategies, text books, and technologies to help students grasp new concepts and apply them to problem solving scenarios. Students must learn how to teach themselves new concepts over time and apply new knowledge to contemporary issues. In a world where change continues at an ever increasing pace, students cannot be fact based but must be able to learn and adapt to an employment environment where they may have several different careers in their lifetime.



Throughout the budget process, the district is committed to protecting the programs and curriculum that makes up the academic core. Some budget and program

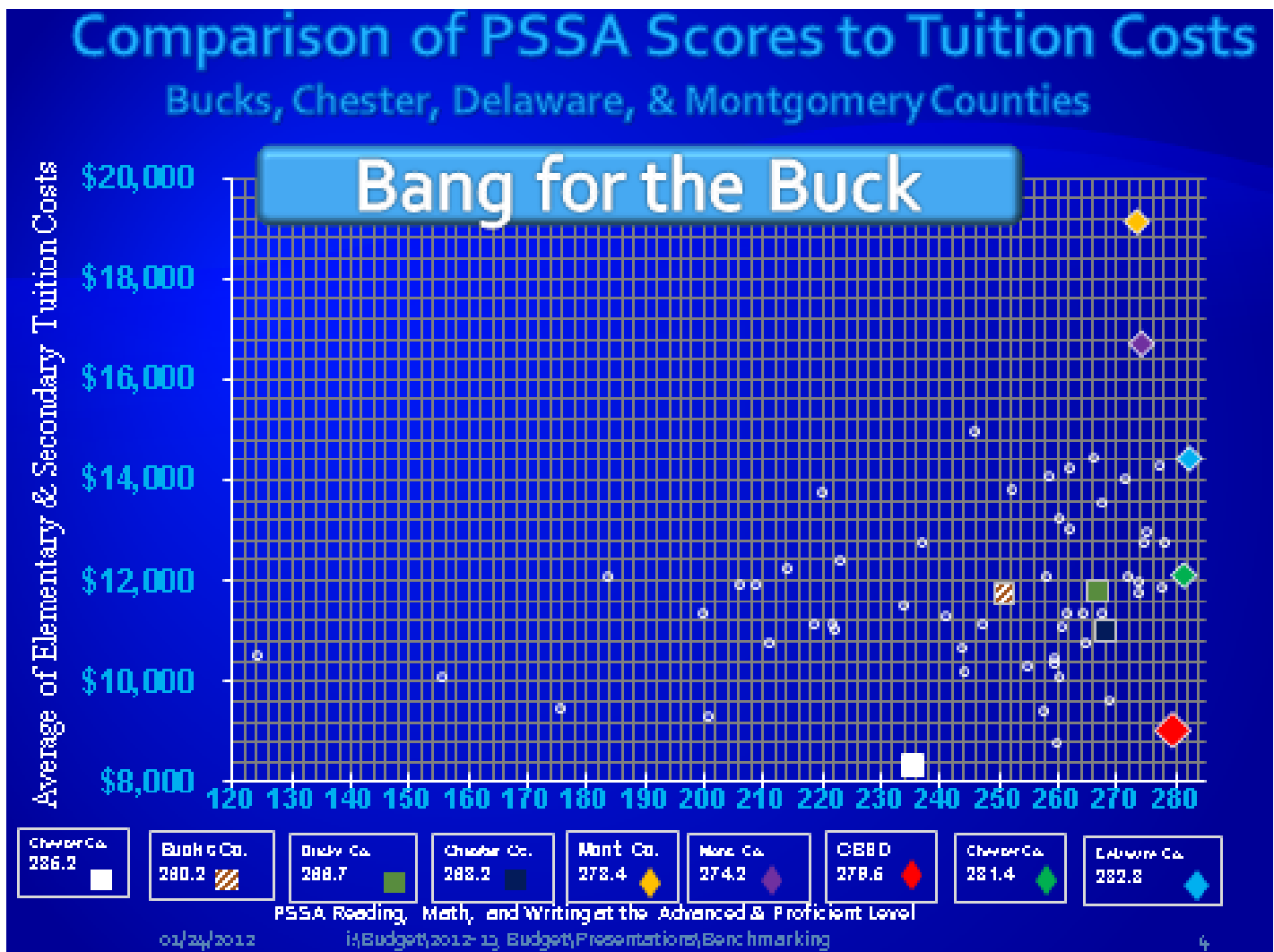


reductions certainly impact the core academics. But, the focus on cost reductions are the outer layers of services that have less of an impact on academic achievement. Our goal is to reduce costs in a measured manner to maintain a quality education product.

In a broader analysis, the graph below looks at the average elementary and secondary tuition costs per school district as calculated by the Pennsylvania Department of Education (PDE). The tuition cost is then compared to the combined percentages of students in each school district that score proficient or above in the Pennsylvania standardized test scores for reading math and writing.

The best position on the graph is the bottom right side corner. This section of the graph represents low cost and high test score achievement. This is the area where Central Bucks is positioned as referenced with the red diamond.

Test scores for selected school districts are located in the boxes below the graph axis. For example the Central Bucks score is 279.5.





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